



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 19, 2003

H.R. 1460

Veterans Entrepreneurship and Benefits Improvement Act of 2003

As ordered reported by the House Committee on Veterans' Affairs on May 15, 2003

SUMMARY

H.R. 1460 would affect several veterans programs, including housing, education, and compensation. H.R. 1460 would also amend the Small Business Act by establishing a specific set-aside preference for service-disabled, veteran-owned small businesses.

Provisions in H.R. 1460 would both increase and decrease direct spending. Taken together, CBO estimates that enacting this legislation would reduce net direct spending for veterans benefits by \$66 million in 2004, about \$180 million over the 2004-2008 period, and about \$340 million over the 2004-2013 period. In addition, CBO estimates that implementing H.R. 1460 would cost less than \$500,000 a year over the 2004-2008 period, assuming the availability of appropriated funds.

H.R. 1460 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1460 is shown in Table 1. The costs of this legislation fall within budget functions 700 (veterans benefits and services) and 800 (general government).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 1460 (By fiscal year, in millions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING											
Estimated Budget Authority	0	-66	-32	-24	-26	-29	-30	-31	-33	-32	-34
Estimated Outlays	0	-66	-32	-24	-26	-29	-30	-31	-33	-32	-34

BASIS OF ESTIMATE

Direct Spending

The legislation would affect direct spending in veterans' programs for housing, education, and compensation. Table 2 summarizes those effects, and the individual provisions that would affect direct spending are described below.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING FOR VETERANS' BENEFITS UNDER H.R. 1460 (Outlays, by fiscal year, in millions of dollars)

Description of Provision	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING											
Vendee Loan Program	0	-68	-34	-26	-28	-31	-32	-33	-35	-34	-36
Entrepreneurship Courses	0	1	1	1	1	1	1	1	1	1	1
Accrued Benefits	0	1	1	1	1	1	1	1	1	1	1
Adapted Housing	0	*	*	*	*	*	*	*	*	*	*
Total Changes in Veterans' Benefits	0	-66	-32	-24	-26	-29	-30	-31	-33	-32	-34

* less than \$500,000.

Vendee Loan Program. Section 5 would reinstate the vendee home loan program which was discontinued by the Department of Veterans Affairs (VA) on January 31, 2003. Before that date, when a veteran defaulted on his mortgage and the home went into foreclosure, VA

often acquired the property and issued a new direct loan when the property was sold. These loans are called vendee loans. CBO estimates that reinstating the program would save VA roughly \$35 million a year over the 2004-2013 period. Higher savings in 2004 result from lower interest rate assumptions for that year compared to those projected for the 2005-2013 period. The bill also would require VA to finance between 50 percent and 85 percent of such sales through the vendee loan program. Before the program was terminated, VA financed roughly 60 percent of such sales with vendee financing and CBO estimates that it would continue to do so under the bill. The estimated savings for this provision is the net effect of three individual program effects (two with savings and one with costs), as explained below.

Based on historical data, CBO estimates that under the bill roughly 14,000 vendee loans would be made each year with an average loan amount of \$98,000. Vendee loans lower the subsidy cost of the VA home loan program in two ways. First, VA receives more money for homes sold with vendee financing than those sold with other financing (16 percent more in 2002). Since the proceeds from these home sales are considered recoveries of losses from the guaranteed loans that were foreclosed, enacting this section would increase recoveries and therefore lower subsidy costs in the guaranteed loan portfolio. CBO estimates that VA would save an average of \$68 million a year in guaranteed loan subsidies over the 2004-2013 period. Second, because vendee loans have lower prepayment and default rates than other direct loans made by VA, this provision also would lower subsidy costs for direct loans by an average of \$28 million a year over the 2004-2013 period.

Finally, before the program was terminated in 2003, VA sold most vendee loans on the secondary mortgage market and guaranteed their timely repayment; CBO estimates that it would continue to do so under the bill. Based on historical data, CBO estimates that VA would sell an average of \$1.2 billion in vendee loans annually, at a subsidy cost of roughly \$60 million a year.

Entrepreneurship Courses. Section 2 would allow eligible veterans, survivors, and dependents to receive education benefits for entrepreneurship courses offered by a Small Business Development Center (SBDC) or by the National Veterans Business Development Corporation, also known as The Veterans Corporation.

According to the Small Business Administration, 17,581 veterans received training from SBDCs in fiscal year 2001. The SBDCs offer a number of courses for individuals who own or are interested in starting a small business, generally at little or no cost. Based on analysis of the available courses and tuition, CBO estimates that about 3,000 veterans, survivors, and

dependents who are eligible for veterans' education benefits would each take three courses a year with an average tuition of \$45 each, and that the tuition would increase with inflation.

In the Veterans Entrepreneurship and Small Business Development Act of 1999 (Public Law 106-50), the Congress established The Veterans Corporation, a federally chartered corporation, tasked to assist veterans with the formation and expansion of small business concerns. The Veterans Corporation began offering entrepreneurship classes to veterans this year, and they intend to enroll 1,500 veterans in 2004 and 3,000 veterans in 2005. Tuition for the course is currently \$350, and CBO expects it will increase with inflation to about \$445 by 2013. Because education benefits usually expire 10 years after separating from military service, CBO expects that less than half of these students would be eligible for veterans education benefits.

Taken together, CBO expects that, under section 2, the SBDCs and The Veterans Corporation would train about 5,000 veterans, survivors and dependents a year who are eligible for education benefits from the VA. We estimate the annual cost for this training would be about \$1 million.

Accrued Benefits. Section 6 would eliminate the two-year limit on accrued benefits payable to eligible survivors of veterans who die while VA is processing their claims for disability compensation. Under current law, when an individual applies for benefits administered by VA, any benefits that are awarded are paid retroactive to the date of application. If the applicant dies before receiving his or her retroactive benefits, certain survivors can apply to receive up to two years worth of the unpaid benefits. VA refers to these benefits that are due but unpaid to deceased applicants as "accrued benefits."

Before December 2002, VA applied the two-year limit on accrued benefits to all cases in which the applicant died before receiving payment. On December 10, 2002, the United States Court of Appeals for Veterans Claims (CAVC) decided in *Bonny v. Principi* that the two-year limit applies differently to the following two groups:

- Applicants who die before VA makes the final decision on the application, and
- Applicants who die after VA makes the final decision on the application but before receiving payment.

CAVC ruled that if the applicant dies before receiving payment but after VA approves the claim, eligible survivors are due the entire amount of the award due to the applicant.

Eligible survivors of applicants who die during the processing of the claim but before VA makes a final decision, however, are eligible for only two years of accrued benefits.

Section 6 would eliminate the two-year limit on accrued benefits for all eligible survivors, regardless of whether VA has made a final decision on the claim. Based on information provided by VA, CBO estimates that VA awards accrued benefits payments to about 3,700 survivors a year and that, under current law (reflecting the *Bonny* decision), about 18 percent or 670 of these cases would be paid the full amount. Based on information provided by VA, CBO estimates that no more than 10 percent of the roughly 3,000 remaining accrued benefits payments would reflect more than two years of unpaid benefits.

VA only tracks data on the number of claims processed for accrued benefits payments and is unable to identify the number of claims it approves; whether these claims are for disability compensation, veterans pension, or other veterans' income security benefits; or the amount of the average payment. Absent this information, CBO assumes that all accrued benefits payments would be for veterans disability compensation because the majority of applications for VA benefits are for such payments. We also assume that all accrued benefits would be paid at an average disability rating of 30 percent, consistent with average benefit payments for new compensation cases, and that, on average, these 300 cases would receive an extra six months worth of payments.

According to data provided by VA, in 2002 the average annual compensation payment for a disability rating of 30 percent was \$4,092. Such payments are adjusted annually for increases in the cost of living. Thus, CBO estimates that enacting H.R. 1460 would increase direct spending for compensation benefits by less than \$1 million in 2004, \$3 million over the 2004-2008 period, and \$7 million over the 2004-2013 period.

Adapted Housing. Section 4 would allow severely disabled members of the armed forces to receive specially adapted housing grants from VA while still on active duty. CBO estimates that enacting this provision would increase direct spending for veterans readjustment benefits by less than \$500,000 in 2004.

VA currently administers two grant programs to assist severely disabled veterans in acquiring housing that is adapted to their disabilities, or in modifying their existing housing. Under current law, veterans who are classified by the VA as totally disabled and who have certain mobility limitations are entitled to receive housing grants of up to \$48,000. Totally disabled veterans who are blind or have lost the use of their hands are entitled to receive grants of up to \$9,250. Section 4 would allow similarly disabled servicemembers, on active duty pending a medical separation, to receive these grants.

Data from VA indicates that about 180 servicemembers separate from the armed services each year with disabilities the VA rates as totally disabling. Based on information from VA about the number of totally disabled veterans receiving these grants, CBO estimates that about 20 servicemembers a year typically apply for and receive housing grants averaging \$37,000 shortly after they separate from the service. According to the Department of Defense, servicemembers typically remain on active duty about four to six months pending a medical separation. CBO expects that being able to apply for and potentially receive the adapted housing grants during that time period would allow about half of these servicemembers to receive the grants one fiscal year earlier than they would have otherwise. Thus, CBO estimates that about \$370,000 in outlays for readjustment benefits that would have occurred in 2005 would, under H.R. 1460, occur in 2004. We also estimate that the net effect on outlays over the 2005-2013 period would be negligible because we estimate that outlays of roughly that same amount that would have occurred in 2006 and subsequent years would also now occur one fiscal year earlier offsetting the reduction in outlays in 2005 and subsequent years caused by shifting outlays forward.

Spending Subject to Appropriation

Section 3 would establish conditions that federal contracting officers may use to award sole service contracts or restrict competition for contracts if a small business that is owned and controlled by a service-disabled veteran is capable of performing a contract. CBO expects that agencies would incur additional administrative costs for contracting officers to consider such small businesses for contracts, but we estimate that these administrative costs would be less than \$500,000 annually.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1460 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

CBO prepared estimates for two bills that are similar or identical to provisions in H.R. 1460. On March 20, 2003, CBO transmitted a cost estimate for H.R. 241, the Veterans Beneficiary Fairness Act of 2003, as introduced on January 8, 2003, which is identical to section 6 of H.R. 1460. On April 9, 2003, CBO transmitted an estimate for H.R. 761, the Disabled

Servicemembers Adapted Housing Assistance Act of 2003, as introduced on February 13, 2003, which is identical to section 4 of H.R. 1460. The cost estimates for sections 6 and 4 are identical to those for H.R. 241 and H.R. 761, respectively.

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